

Hardship Distributions

What is a hardship withdrawal?

Hardship withdrawals are optional distributions intended to be used only when there is an immediate and heavy financial need that cannot be satisfied by other means.

Not all plans offer hardship withdrawals. You will need to check with your plan sponsor to determine if this withdrawal option is available in your plan.

Taxes Affecting a 401(k) Hardship Withdrawal

You will pay taxes on the amount you take out in the form of a hardship withdrawal. In addition to regular income taxes, you will likely pay a 10% penalty tax.^[1] You should consult a tax advisor for specific questions regarding tax implications of withdrawals from your plan.

You may be able to avoid the 10% penalty tax if you meet one of several exceptions, including:

- You are disabled
- Your medical debt exceeds 7.5% (or 10% after 2012 if under age 65) of your adjusted gross income
- You are required by court order to give the money to your divorced spouse, a child, or a dependent^[2]

If you don't qualify for an exception to the penalty tax, you need to plan that at least \$0.30 of every \$1 you withdraw will go toward taxes. If you withdraw \$1,000, for instance, you might only get \$700 after taxes.

Important Information regarding Hardship distributions:

- Hardships are only eligible for specific "safe harbor" reasons. Eligible "safe harbor" hardship reasons are:
 1. Medical expenses for you, your spouse or dependents;
 2. Purchase of a principal residence (the residence that is listed as the principal residence on your Form 1040);
 3. Tuition and related expenses for the next 12 months for you, your spouse or dependents
 4. Payment to prevent eviction or foreclosure;
 5. Funeral expenses for your parents, spouse or dependents
 6. Repair of your principal residence that would qualify for the casualty deduction under Code section 165 without regard to the limit on casualty losses that are deductible for income tax purposes under IRC 165(h);
 7. FEMA Disaster Expense
- You should be prepared to provide supporting documentation upon request. This documentation must demonstrate the hardship reason and the dollar amount required to satisfy the need.
- Requests will be reviewed and approved/rejected by an authorized plan representative.

Eligible Expenses and Supporting Documentation:

1. Medical Expenses
 - Eligible Expenses - Treatment by licensed medical professional, hospital treatment, prescription drugs and some dental procedures
 - Documentation - Medical bills or estimates for expenses not covered by insurance, insurance statement indicating expenses not covered.
2. Purchase of a principal residence
 - Eligible Expenses - Costs directly related to the purchase or construction of a primary residence, including building materials and closing costs.
 - Documentation - A copy of estimated settlement costs, a good faith estimate or sales contract, if building a home, a government issued building permit may be acceptable.
3. Tuition
 - Eligible Expenses - Tuition, lab fees, technology fees and room-and-board provided by the school.

Student loan payments are not covered, nor are non-tuition related expenses like books, bus fare, or club fees.

- Documentation - Copy of applicable bill
 - 4. Payment to prevent Eviction or Foreclosure
 - Eligible Expenses - Expenses tied to preventing the eviction or foreclosure, except attorney fees.
 - Documentation - an eviction notice, notice of foreclosure, notice to vacate premises or a signed letter from landlord. Statement must be dated within past 60 days and must be clear that eviction or foreclosure will result without payment.
 - 5. Funeral Expense
 - Eligible Expenses- All fees associated with the service, burial or cremation
 - Documentation - Invoice from funeral home, cemetery, and/or religious institution
 - 6. Principle Residence Repair
 - Eligible Expenses - Repairs to a principal residence must fall under the IRS's description of a casualty loss in order to qualify for a hardship withdrawal. The damage must be from an event that is sudden, unexpected, or unusual. Damages resulting from progressive deterioration of your residence due to normal wear and tear, normal weather conditions, or a pest infestation are not considered casualty losses.
 - Documentation - estimate or invoice from the company repairing the residence; prior repairs are not eligible.
 - 7. FEMA Disaster Expense
 - Eligible Expenses - Covers expenses caused by a FEMA declared disaster for individual assistance such as damage to your home or other property or to a loss of income attributed to the disaster.
 - Documentation - Estimate or invoice from the company repairing the property. For a loss of income, the documentation should explain the loss of income such as a reduction in pay caused by a reduction in hours, furlough or layoff, etc. Additionally, proof that you live or work in a FEMA disaster area and that the area was designated for individual assistance is required. For a listing of FEMA Declared disasters, see <https://www.disasterassistance.gov/>
-

Requesting a distribution

Review [this article](#) to learn how to request a distribution for your retirement plan at Sentinel.
